

TAB 224

COMPLIMENTARY READING
AND SIGNING COPY FOR
DEPONENT

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

- - -

SECURITIES AND EXCHANGE :
COMMISSION, :

Plaintiff :

vs. :

CIVIL ACTION NO.

: 01-CV-3898

WILLIAM F. BUETTNER, MARK:
D. KIRSTEIN and AMY S. :
FRAZIER, :

Defendants:

- - -

Philadelphia, Pennsylvania
Monday, January 6, 2003

- - -

Deposition of MARK D. KIRSTEIN, taken
pursuant to notice, at the offices of The
Securities and Exchange Commission, 601 Walnut
Street, Suite 1120E, on the above date,
beginning at approximately 9:55 a.m., before
Cynthia A. Whyte, Registered Professional
Reporter and Notary Public.

- - -

V A R A L L O Incorporated
Litigation Support Services
Eleven Penn Center
1835 Market Street, Suite 600
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VARALLO Incorporated

3

1 Mark D. Kirstein
2 agree before we start the remainder of the testimony
3 on the meanings that I will be intending when I use
4 certain terms. So I would first refer or state to
5 you that in accordance with what is set forth on
6 Page 3 of this document, Bates-stamped JDP 45, when
7 I refer to AHERF in my questioning, I will be
8 referring to AHERF as it existed as of June 30, 1997
9 including the affiliates listed on Page 3 of this
10 document. Do you understand that?

11 A. Yes.

12 Q. And to the extent that you use AHERF in any
13 other manner in answering my questions, would you
14 please specify any difference in your answers?
15 Otherwise, can we agree that you will do that;
16 otherwise, we will assume that we are using that
17 same meaning? You can keep that document in front
18 of you throughout the testimony if that would be
19 helpful to you.

20 MR. ZABEL: I think the witness can try
21 to do that. We may have to see how it goes since
22 that is a definition you want to use today. It is
23 not always the way that I will think of things, but
24 we'll try.

25 Q. Do you not understand the information that



1 Mark D. Kirstein

2 appears on here?

3 A. I understand that. I have a hard time
4 agreeing that every time I use the word "AHERF" that
5 I'm referring to every single one of these things.

6 Q. That's not what I'm asking you to agree to.
7 I'm asking you to agree if you use the term "AHERF"
8 to mean something different than what is noted on
9 this page that you will note that as part of your
10 answer and indicate what you are using the term to
11 mean.

12 A. I'll try, but I think that is a heavy onus to
13 put on me. I will try to answer every one of your
14 questions as best as I can and as thorough as I can.

15 Q. Thank you.

16 When I refer to DVOG or Delaware Valley
17 or Delaware Valley Obligated Group in my
18 questioning, I will be referring to the obligated
19 group as it existed as of June 30, 1997 including
20 the members that are listed on the third page of
21 what has been marked as Kirstein Exhibit 1 under
22 Delaware Valley Obligated Group. Do you understand
23 that?

24 A. Could you restate that again?

25 Q. When I use either DVOG, D-V-O-G, or Delaware



1 Mark D. Kirstein
2 Valley or the term "Delaware Valley Obligated Group"
3 in my questioning, I will be referring to the
4 obligated group as it existed as of June 30, 1997
5 including the members that are listed on Page 3,
6 which this is the document that is in front of you,
7 of Kirstein Exhibit 1?

8 MR. ZABEL: Merri Jo, I'm going to make
9 a request that since we are using the terms on this
10 page and defined as DVOG, I'm going to ask you to
11 use DVOG and not use multiple terms.

12 MS. GILLETTE: That would be fine. I
13 can do that.

14 Q. Do you understand what I said to you, that
15 that will be what I will be referring to in my
16 questions as DVOG as indicated here on the third
17 page of Kirstein Exhibit 1?

18 A. So if you are referring to DVOG, you will say
19 DVOG?

20 Q. Yes.

21 A. But your first question had Delaware Valley
22 in there. That will not mean DVOG. DVOG will mean
23 DVOG?

24 Q. DVOG will mean DVOG as it is defined or set
25 out on Page 3 of Kirstein Exhibit 1. Can we agree



1 Mark D. Kirstein

2 on that?

3 A. Yes.

4 Q. And to the extent that you use DVOG in your
5 answers, that you will either use it to mean the
6 same thing as appears on Kirstein 1, Page 3, or you
7 will indicate that you intend a different meaning?

8 A. Yes.

9 Q. When I refer to Graduate in my questioning, I
10 will refer to the entities acquired by AHERF from
11 the Graduate Health System in 1997 and, accordingly,
12 those entities listed under Allegheny Hospitals,
13 Centennial Obligated Group, and Allegheny University
14 Hospitals, New Jersey. These include City Avenue,
15 Graduate, Mt. Sinai, Parkview and Rancocas. Do you
16 understand that?

17 A. So it is the third one and the last one?

18 Q. Yes.

19 A. Yes.

20 Q. And to the extent that you use Graduate in
21 your answers to my questions, can we agree that you
22 will use the same meaning or let me know if you are
23 using it to mean something different than that?

24 A. I will do my best.

25 Q. Thank you.



1 Mark D. Kirstein

2 MR. ZABEL: By the way, to make things
3 easier, we will agree to that and he will try to say
4 that. That doesn't mean that he knew at the time
5 all of those entities were part of the definitions
6 that you are asking him to use today.

7 Q. Mr. Kirstein, did you attend a luncheon with
8 certain AHERF employees on or about April 7, 1997 at
9 the Louis Tambellini Restaurant in Pittsburgh,
10 Pennsylvania?

11 A. Yes.

12 Q. What was the purpose of the luncheon?

13 A. I don't recall.

14 MR. PERSCHETZ: I need a clarification.
15 You are referring to AHERF as of June 30, 1997; is
16 that right?

17 MS. GILLETTE: Yes.

18 MR. PERSCHETZ: You just asked a
19 question about AHERF employees on April 7, 1997; is
20 that right?

21 MS. GILLETTE: Yes.

22 MR. PERSCHETZ: I object to the form of
23 the question.

24 (Kirstein Exhibit 2 was marked for
25 identification.)



1 Mark D. Kirstein

2 Q. Mr. Kirstein, I have handed you what has been
3 marked as Kirstein Exhibit No. 2.

4 A. Okay.

5 Q. Do you recognize what this is?

6 A. It appears to be in the -- a copy of an
7 expense report that I would have filed. I don't
8 know if it's a complete copy.

9 Q. What documents would you need to look at to
10 determine whether this was a complete copy or not?

11 A. I'm just hedging. When you typically submit
12 an expense report, there would have been a time
13 report, a copy of the expense report and a copy of
14 receipts. I'm not saying it is not a copy of the
15 expense report, but I'm not sure if it is everything
16 that I handed in on April 15, 1997.

17 Q. I would like to first direct your attention
18 to the third line item entry if you go down the date
19 column on Page 1 in the far left-hand column of
20 Kirstein Exhibit 2 to the date 4/7/97 and ask you to
21 take a moment to read across that line entry.

22 A. Okay.

23 Q. Does this relate to the luncheon at
24 Tambellini's on April 7, 1997 that I just asked you
25 about?



1 Mark D. Kirstein

2 A. I'm only aware of one luncheon that I had at
3 Tambellini's with those gentlemen. It appears to,
4 yes.

5 Q. And does reviewing this document refresh your
6 recollection as to what the purpose of the luncheon
7 was?

8 A. No.

9 Q. I direct your attention to the eighth column
10 over from the left which states "Business Purpose."
11 Is that your handwriting that appears in that column
12 on the line entry to the right of 4/7/97?

13 A. Yes.

14 Q. And what does it say?

15 A. "Audit planning."

16 Q. So can we agree that the business purpose of
17 this luncheon was audit planning?

18 MR. ZABEL: Objection to the form.

19 Q. What was the business purpose of this
20 luncheon, Mr. Kirstein?

21 MR. ZABEL: Objection. Asked and
22 answered.

23 A. As I said, I don't recall.

24 Q. Do you have any reason to believe that the
25 information that you wrote on this document at the



1 Mark D. Kirstein

2 time that you created it was inaccurate when you
3 wrote it there?

4 A. No.

5 Q. I now direct your attention to the next
6 column to the right of the column which we were just
7 referring to. That would be the ninth column on the
8 same line item entry and there appears to be some
9 handwritten notes in that block. Is that your
10 handwriting?

11 A. What's the title of the column?

12 Q. "Guest/Business Affiliation."

13 A. Yes, that's my handwriting.

14 Q. And can you read into the record what it
15 says?

16 A. Cancelmi, Adamczak, AHERF.

17 Q. And what does that mean?

18 MR. ZABEL: Objection to the form.

19 A. When you fill out an expense report and had a
20 meal, you are required to write who was your guest
21 and what the business affiliation was.

22 Q. So am I reading your entry correctly that the
23 guests were Mr. Cancelmi and Mr. Adamczak and the
24 business affiliation was AHERF, assuming that you
25 filled out the form accurately at the time that you



1 Mark D. Kirstein

2 filled it out?

3 A. Yes, I would read that that Mr. Cancelmi and
4 Mr. Adamczak were my guests and that they were
5 employed at AHERF at the time.

6 Q. And taking your attention over to the far
7 right-hand column under "Duration," what is the
8 handwritten entry in that box?

9 A. The number 2.

10 Q. And what does that mean?

11 A. I don't recall writing this, but that column
12 when you fill out expense reports typically related
13 to the time that the lunch and/or the business meal
14 was.

15 Q. And would that be two hours?

16 A. Yes.

17 Q. And I now direct your attention to Page 2 of
18 Kirstein Exhibit 2 to the signature line at the
19 bottom. Is that your signature that appears there?

20 A. Yes.

21 Q. What was discussed at the luncheon at
22 Tambellini's with Mr. Adamczak and Mr. Cancelmi?

23 MR. ZABEL: Objection. Form.

24 A. I don't recall the specifics of the lunch and
25 all the matters that were discussed. I recall we



1 Mark D. Kirstein
2 discussed Dan playing golf with his son and we
3 discussed generally Al and his son played hockey and
4 I believe that there were some matters discussed
5 about the acquisitions that AHERF was undertaking at
6 the time in April.

7 Q. Do you remember anything more specifically
8 about what was discussed about the matters relating
9 to the acquisitions that AHERF was undertaking?

10 A. I do not, ma'am.

11 MR. ZABEL: I would just note for the
12 record I'm not going to make objections to take up
13 time, but I think there, as Mr. Perschetz has
14 pointed out, AHERF must have been different than the
15 definition that you wanted us to agree to when you
16 are talking about this time period. With that
17 understanding we will keep going.

18 Q. Were reserves at either Graduate or DVOG
19 discussed during this luncheon?

20 A. I don't know.

21 MR. PERSCHETZ: I take it we can have a
22 standing objection as to form with regard to the use
23 of the term "AHERF" in connection with the question
24 relating to events that occurred before June 30,
25 1997? Is that all right with you?



1 Mark D. Kirstein

2 MS. GILLETTE: That's fine with me.

3 MR. PERSCHETZ: Thank you.

4 Q. Was there any discussion of the transfer
5 reserves during this luncheon?

6 MR. ZABEL: Objection to form.

7 A. What type of reserves?

8 Q. Was there any discussion of any type,
9 relating to any type of transfer of any type of
10 reserve, during this luncheon?

11 MR. ZABEL: Objection. Form.

12 A. What do you mean by reserve?

13 Q. Do you have an understanding of what the term
14 "reserve" means?

15 A. Reserve can mean a lot of things.

16 Q. Do you have an understanding of what the term
17 "reserve" means to you?

18 MR. ZABEL: Objection to form. He said
19 it can have many meanings.

20 Q. Please describe the meanings that you
21 understand the term to have.

22 A. A reserve as I think of it is typically a
23 liability you set up for a potential either loss or
24 future event, but there could be many other meanings
25 to the word "reserve" that I'm not aware of.



1 Mark D. Kirstein

2 Q. But your understanding then, the
3 understanding you have or the definition that you
4 are aware of, is the one that you just gave; is that
5 correct?

6 A. Sitting here today, that's the definition.

7 Q. That is your definition?

8 MR. ZABEL: Objection. Form.

9 Q. Is that your definition?

10 MR. ZABEL: Objection. Asked and
11 answered.

12 A. I asked you for a clarification of reserve
13 and you asked me to clarify it.

14 Q. Yes or no, Mr. Kirstein? Is that your
15 definition?

16 MR. ZABEL: Objection.

17 MR. PERSCHETZ: Objection.

18 MR. ZABEL: He is in the middle of his
19 answer. He is not going to interrupt you; please do
20 not interrupt him.

21 Q. Were you done with your answer?

22 A. I was not.

23 Q. Please continue.

24 A. All I said is I asked you for a clarification
25 of reserve and you asked me what I think it means.



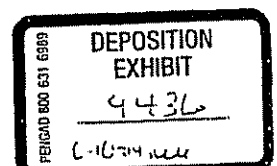
TAB 225

Answer
Pleadings
ADDITIONAL

07/01

RM-1022

PWCK2 42



ENT - SYSTEMS
PACIFIC
MOVIES

PWCK2

43

4/21 Cont. ~~APR~~

NOTE: DOWNT
\$50 MM (AT 1/2
DOWNT 1/2)

- \$50 MM MORTGAGE RESOURCES
- \$40 MM ASST @ MT. SINAI TO 6/20/2000
- MT. SINAI TO RB SWD FOR \$10 MM.
- ALONG WITH AMER?? FROM OR SUBSEQUENT??
- DEBT RESTRUCTURING
 - VIEW AS NOT UNDER 100
 - 1) GW
 - 2) OTHER INTERESTERS
 - 3) IN EQUITY.

SUMMARY ~~THE~~ CONCLUSIONS

- 1) DEBTS GENERATED BY PUNCH APR. TO PPTB
OVER 30 YRS.
- WILL OCCUR @ TIME TO MAKE
- 2) 25% OF DEBT RESTRUCTURING FROM INCORP
IN '97.
- SPINCO SAYS MIGHT NOT NEED DEBT
RESTRUCTURING TO PTB'S

ESSEITE
Oxford[®]

10%
NO 752



1- BAD MOVE
TO DOWNT
FROM SWD
IN 1997.

- 3) CONTIN. DEBT OF GHS
 - DEBTS 2/97 vs 5/97
 - SWD CREDITORS EXPIRE FOR 3 MONTH PERIOD
- 4) WILL ASKING FOR COST TO CLOS &
LOSS @ MT SINAI FROM SPB DEBT TO CLOS.
- 6) HIS PURCHASE
 - TO ADD 44 MM SPAN BY ENLIGHTEN
 - IN OTHER ASSETS @ GHS @ PPTB
 - 44 MM LARS REFINANCE - APPROX WITH
GAINS UP B/S & ASSET AS INTERESTS.

VIEW
CONSIDERED
DEBTS AS
AROUND 1997

- PURCHASE PRICE OK → GO TO DISCOUNT
OF MT. SINAI &
- EFFECTIVE DATE - 2/97
FOR CH.
- 7) PMU & BU & CLOS - CLOS IS UNDER - 5/10 DIXS &
- 8) PUNCH DOWNT APR.

222

DAN C. 4/18

- BUSTIN / KATZ

- GOODWILL C MT. SPAN

- ~~MT.~~ MT. SPAN IS BORN SW IN 5/10 AM

- GRADUATE WILL ~~BE~~ ASSUMED ~~DEBT~~ OF \$40 MM
 - IN ESSENCE, AMPL PURCHASE PRICE FOR GRADUATE

- CHL RECOMMENDS PUT IN PPTE & RECOVER OUR OATH.
 - AMPL WILL GO 30-35 YRS
 - CHL WILL ASSES LIFE & SW. DIFFERENCE.

#50 MM RESERVES C GRADUATE

- WILL HAVE ~~50~~ MM ⁵⁰⁰ C/O IN DV BY 9/30/97 (GROSS #)
 ON AIR
 OVERTHROW.

- PLACING RESERVES ON GRADUATE ENTITIES TO
 BE USED FOR DV AIR @ 1/6

- DOES NOT BELIEVE THERE IS ANY GRADUATE
 RESERVES OTHER THAN \$50 MM.

- BECOMES PART OF PPTE / INDENTURE. AS PART OF
 PURCHASE AGREEMENT FROM SW TO AMPL

- DATES AIR PROBLEM & BE DEFERRED.

PWCK2

45

- DETAILED REQUIRE

- VIEWED AS PURCHASED NOT
- OFFER AGAINST GOODWILL WHEN UTILIZED
- IF NO GOODWILL, OK TO GO THROUGH PURCHASE

- OF PA '58 AS UNCERTAIN IS REMOVED

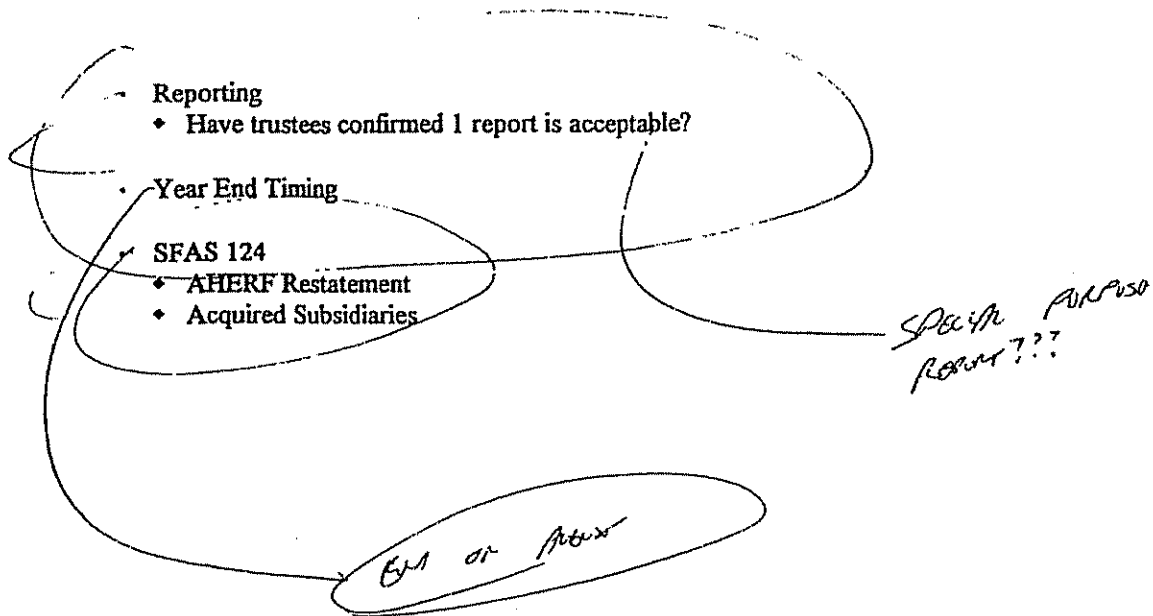
- RESEARCH

TAB 226

EXHIBIT 377

7

DEPOSITION
EXHIBIT
4403
Kirstein 5/3/04



- AFRISO UPON PROCEEDING ON DEBT COMPLIANCE.
- GHS NOTE RECOGNITION IS BEING DISCOUNTED
- E PARTIALY CASHING \Rightarrow TO HAVE @
 - └ POLICY + ACCOUNTING METHOD
 - └ IN REPORT SOFTWARE.

- Attache Person Stops Account Man 18
- ✓ New Review & Sample News Boxes
 - 80-100 news
 - ✓ Review Assumptions & Risk Mgmt
 - ✓ Acquisition & New System
 - O&A Depreciation
 - Capitalized Intangible
 - ✓ Review Items & Reserves Update
 - ✓ W/L - 10/31/96 intro
 - ~~Project~~ → Forbes, GARDNER & AMI News Corp Review & Update.
 - Structural MIB Screening by AS & CP. (30/1/2/3)
 - Forbes and 1/1/97 Agency Report.
 - ✓ Impairment & Behavioral Capex.
 - ✓ Payable / Performance Update.
 - ✓ Prudent Buyer
 - Warranty K
 - ✓ Purchase Assumptions
 - Open for 6/15
 - " " Forbes
 - ✓ Pooling vs Purchase ⇒ OK / merge.
 - 6/15 closing - 3/1 vs 5/1 (small difference)
 - ✓ Intangible ← 12/1 on transition
 - Patent Pool
 - ✓ Reserve ST Doubling.
 - ✓ Billable Compliance Update.

Abstract 1500

9/10 1/5

REVENUE

- \$50 MM ~~PROJ~~ RESERVE - \$25 MM ~~MM~~ MARCH
\$25 MM ~~MM~~ APRIL
- ~~\$80~~ ~~MM~~ HAVE ~~ITS~~ & ~~OTHER~~ BY \$5 MM RESERVE
- ~~NEW~~ CURRENT VS. ~~PER~~ YEAR ~~BUDGET~~
- ~~MANAGING~~ ~~ITS~~ ~~IMPROVING~~ \Rightarrow OUT OF ~~PERNO~~ ~~ADJUSTMENTS~~
BY ~~DETERMINATION~~
 \Rightarrow ~~INTER~~ / ~~PROPOS~~ ~~NOT~~ ~~BOTH~~
~~PERNO~~
- ~~BAD~~ ~~DEBT~~ ~~BANKED~~ ~~TO~~ ~~BANK~~
- ~~MISSD~~ ~~1~~ ~~DAY~~ ~~RETRD~~ ~~IN~~ ~~PROJ~~

PROJ

- ~~CHANGED~~ ~~BAD~~ ~~DEBT~~ ~~TO~~ ~~NOT~~ ~~OF~~ ~~MURDER~~
- ~~IMPROVING~~ ~~PHYSICIAN~~ ~~MR~~ ~~MANAGING~~
- ~~RESERVING~~ ~~IS~~ ~~CASUALTY~~

REVENUE

- ~~CHANGED~~ ~~PROPOS~~ ~~FOR~~ ~~PROJ~~

STATE

- ~~NEW~~ ~~REVENUE~~

1. CAP

- ~~CURRENT~~ & ~~PROCESS~~
- ~~STATE~~ ~~GO-NO~~ ~~PROCESS~~ ~~WILL~~ ~~PROJ~~

TAB 227

AHERF
06/30/97

Issue Topic: \$50 Million Reserve Entry

Issue Description: Per conversation with Robin Schafer, C&L notes that a total of \$50 million was intercompained from the Graduate hospitals to the Delaware Valley hospitals due to the DV bad debt reserve shortfalls. A determination was made that \$25 million of reserves would be recorded in the DV hospitals in the March, 1997 financials and the remaining \$25 million would be recorded in April.

The allocation of the reserves was as follows:

	March, 1997	April, 1997	Total
Bucks	\$3 million	\$ 4 million	\$ 7 million
Elkins	3 million	5 million	8 million
HUH	5 million	5 million	10 million
MCP	8 million	7 million	15 million
SCHC	<u>6 million</u>	<u>4 million</u>	<u>10 million</u>
			\$25 million
\$25 million	\$50 million		

The journal entry for the DV entities was as follows:


Dr. Intercompany xxx
Cr. I/P Reserve for Uncollectible Accounts xxx

The journal entries for the Graduate Hospitals was as follows:


Dr. Intercompany xxx
Cr. Other Assets - Purch Price Adj. (Intangible) xxx


Dr. Accrued Liabilities - Other xxx
Cr. Accrued Liabilities - Other xxx

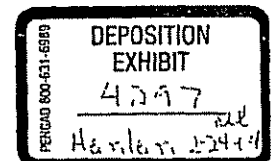
C&L notes that AHERF is amortizing the intangible over 35 years.
C&L does not take exception.

Link to Further Information: Audit Program Step  Audit program step

Issue Type : No further action required

**Audit Area(s)
Affected :** Patient Accounts Receivable

Client Site : Delaware Valley, Graduate



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CL 232335



Comments:

Created By: Kristen Heinlein
Last Modified By: Kristen Heinlein
Cleared By:

Date: 06/09/97 09:09:07 AM
Date: 06/09/97 10:30:01 AM
Date:



TAB 228

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION
& RESEARCH FOUNDATION,
Plaintiff, .

vs.

Civil Action

PRICEWATERHOUSECOOPERS,
LLP,

No. 00-684

Defendant.

Videotaped Deposition of KRISTEN
LEE HEINLEIN, CPA, called for examination under
the Applicable Rules of Federal Civil
Procedure, taken before me, Michele E. Eddy, a
Registered Professional Reporter and Notary
Public in and for the State of Ohio, pursuant
to notice and stipulations of counsel, at the
offices of Jones Day, 500 Grant Street, Suite
3100, Pittsburgh, Pennsylvania, on Tuesday, the
24th day of February, 2004, at 9:00 a.m.

- - - - -



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Kristen Heinlein, CPA

<p style="text-align: right;">Page 109</p> <p>1 information itself, I have printed off -- and 2 if you go back four pages from that -- 3 actually, five pages where the box that says 4 document has a summary that says revisions. 5 Then toward the right it says field name. 6 A. Okay. 7 Q. Okay? 8 Then I've printed off the next five 9 pages, there's some overlap between, but the 10 dates -- some different pages that came under 11 that metadata. 12 Let me ask you, do you know what 13 that field means, revisions? 14 A. No. 15 Q. If I could ask you to flip with me, 16 and I realize it will take you a while maybe to 17 find it, but where the roll-forwards of the 18 schedules start. 19 Actually, let's make this a little 20 easier. Actually, if I can find it. Did you 21 find it? 22 A. Inpatient? 23 Q. Yes, inpatient, under Bucks County. 24 A. Yes. 25 Q. Right?</p>	<p style="text-align: right;">Page 111</p> <p>1 number CL232335336. It's an issue topic titled 2 50 Million Dollar Reserve Entry that was 3 created by Kristen Heinlein on June 9th, 1997, 4 last modified by Kristen Heinlein on June 9th, 5 1996. 6 MR. McDONOUGH: '97. 7 A. '97. 8 Q. I'm sorry, '97. 9 MR. McDONOUGH: Viewed it and last 10 modified it on the same day. 11 MR. TORBORG: Yes. 12 Q. Miss Heinlein, if you would review 13 that document. 14 A. Okay. 15 Q. Miss Heinlein, do you recall this 16 document? 17 A. Yes. 18 Q. Is this -- earlier I had asked you 19 if there were any documents that you reviewed 20 in your preparatory session for your third day 21 of your SEC session? 22 A. Yes. 23 Q. I believe you referenced an issue 24 document? 25 A. Yes.</p>
<p style="text-align: right;">Page 110</p> <p>1 And we see there, again, the -- in 2 the March row under the ATB column, there's, 3 again, a credit entry of \$3,109,925, right? 4 A. Yes. 5 Q. But this one has a D footnote next 6 to it? 7 A. Yes. 8 Q. Which on the next page states, 9 "Represents the monthly entry to bad debt 10 expense, paren, AHERF is booking to budget, end 11 paren, plus the entry of 3 million dollars from 12 the Graduate hospitals, paren, refer to the 13 issue, end paren, period. 14 "Monthly bad debt expense agrees to 15 the I/S without exception." 16 Miss Heinlein, did you write that 17 footnote? 18 A. I think so, yes. 19 - - - - - 20 (Thereupon, Deposition Exhibit 4297 21 was marked for purposes of 22 identification.) 23 - - - - - 24 Q. For the record, what I've marked as 25 Exhibit 4297 is a document bearing the Bates</p>	<p style="text-align: right;">Page 112</p> <p>1 Q. Is this that document? 2 A. Yes. 3 Q. Is this also the document that is 4 referenced in the bad debt roll-forward 5 schedule, Exhibit 4292, footnote D. It says, 6 "Refer to the issue"? 7 A. Yes. 8 Q. What is that note in Exhibit 4297 9 that says, "Represents the monthly entry to bad 10 debt expense, AHERF is booking to budget, plus 11 the entry of 3 million dollars for the Graduate 12 hospitals" mean? 13 MR. McDONOUGH: For the record, 14 it's 4292 that that footnote appears in. 15 MR. TORBORG: What did I say? 16 MR. McDONOUGH: 4297 is the issue. 17 MR. TORBORG: Yes. 18 A. I don't remember what specifically 19 I meant when I wrote it. 20 Q. Does it have reference to the 21 transfer of reserves from the Graduate entities 22 to the Delaware Valley Obligated Group 23 entities? 24 A. It appears so. 25 Q. Do you recall that issue as you sit</p>

28 (Pages 109 to 112)

www.rennillo.com

Cleveland (216) 523-1313

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Kristen Heinlein, CPA

<p style="text-align: right;">Page 113</p> <p>1 here today, the transfer of reserves from 2 Graduate to DVOG? 3 MR. McDONOUGH: You know, just to 4 be precise -- 5 MR. TORBORG: The 50 million. 6 MR. McDONOUGH: -- the issue to 7 mean the exhibit or the issue to mean -- 8 MR. TORBORG: The broader issue. 9 MR. McDONOUGH: -- the broader 10 issue? 11 MR. TORBORG: Yes, the broader 12 issue. 13 MR. McDONOUGH: I have contended 14 throughout this case that they should have 15 thought of a different name -- 16 MR. TORBORG: Good point. 17 MR. McDONOUGH: -- for the 18 document. 19 You're talking about the broader 20 issue with the small i, basically? 21 MR. TORBORG: Thank you, yes. 22 A. Yes. 23 Q. To the best of your recollection, 24 when did you first learn that AHERF was 25 planning to transfer or had transferred</p>	<p style="text-align: right;">Page 115</p> <p>1 reserves from the Graduate entities to the 2 Delaware Valley Obligated Group entities? 3 A. I'm not sure who told me about the 4 50 million dollar transfer. 5 Q. Do you believe it's something that 6 someone told you or something that you learned 7 about from reviewing schedules like 8 roll-forward schedules? 9 A. I think someone told me. 10 Q. Do you recall who it was that told 11 you? 12 A. No. 13 Q. Do you recall if it was someone 14 either at AHERF, the client, or within Coopers? 15 A. I don't know. 16 Q. Do you recall testifying during 17 your first SEC deposition, the first day, that 18 it was your best recollection that you learned 19 about the concept of transferring 50 million of 20 reserves from Graduate to DVOG from Amy 21 Frazier? 22 MR. STEINBERG: Objection. I think 23 if you're going to be referencing prior 24 testimony, you might want to put it -- 25 MR. TORBORG: That's what we're</p>
<p style="text-align: right;">Page 114</p> <p>1 reserves from the Graduate entities to the 2 Delaware Valley Obligated Group entities' bad 3 debt reserve accounts? 4 A. I thought I learned about it during 5 our year-end procedures. 6 Q. When was that phase of the audit? 7 A. August, September time frame? 8 Q. That's what you thought initially? 9 A. Yes. 10 Q. And then did reviewing the issue 11 document marked as 4297 refresh your 12 recollection of when you first learned about 13 it? 14 A. No. 15 Q. But it does cause you to believe 16 that you learned about it in the preliminary 17 phase of the audit? 18 A. Yes. 19 Q. By at least June 9th, 1997? 20 A. Yes. 21 Q. How did you come to learn about the 22 concept of -- notice I didn't use the word 23 issue -- 24 MR. McDONOUGH: I appreciate it. 25 Q. -- the concept of transferring</p>	<p style="text-align: right;">Page 116</p> <p>1 going to do. 2 MR. STEINBERG: Put it in front of 3 her. 4 MR. TORBORG: Since you invited 5 this. 6 MR. STEINBERG: Didn't mean to 7 invite it, but I just think it's hard to deal 8 with the prior testimony and make 9 characterizations of it without the testimony 10 in front. 11 - - - - - 12 (Thereupon, Deposition Exhibit 4298 13 was marked for purposes of 14 identification.) 15 - - - - - 16 Q. Miss Heinlein, if you could turn 17 to, and this is a miniscript version of your 18 testimony given on the first day of your SEC 19 deposition, March 1, 2000, to page 88 in the 20 little -- it has four pages on one page. 21 MR. McDONOUGH: Just for 22 chronology, this is about four years ago? 23 MR. TORBORG: Yes. I don't know 24 that it was necessary to point that out on the 25 record, but, yes, 2000 was four years ago.</p>

29 (Pages 113 to 116)

Kristen Heinlein, CPA

<p style="text-align: right;">Page 117</p> <p>1 Q. Page 88 -- are you with me on page 2 88? 3 A. Yes. 4 Q. I'm going to read some testimony 5 into the record starting on line 17, okay? 6 A. Yes. 7 Q. Where there was a question, "And 8 with respect to that 50 million dollar 9 transfer, what did you do? 10 "We're talking from Graduate to 11 Delaware Valley, correct?" 12 Your answer, "Yes." 13 Question, "Okay." 14 Answer, "I received -- I learned 15 about the 50 million from Amy Frazier. I 16 inquired of management for journal entries and 17 the allocation between which hospital entities 18 it was going to and then I documented my 19 results of my findings." 20 Question, "What was the issue?" 21 Answer, "I put my information in an 22 issue to flag to Christa Porter and to Amy what 23 I found out. I didn't relate it. I didn't 24 categorize it as a critical matter. That was 25 my work in process issue."</p>	<p style="text-align: right;">Page 119</p> <p>1 Mr. Barron interjected. "At what 2 point in time," question. Then Mr. DeLacy 3 interjected, "At any point in time during the 4 audit after you were charged with the -- with 5 investigation of this 50 million dollar 6 transfer." 7 Your answer, "Amy Frazier knew 8 about it and Christa Porter knew about it. I 9 knew that." 10 Then a question by Mr. DeLacy, but 11 did -- "But did, though, know about the amounts 12 coming at the various hospitals, coming in 13 those amounts, were they familiar with that, 14 too?" 15 Mr. Barron interjected. "Prior to 16 that point in time when she did her research?" 17 Mr. DeLacy, "Correct." Mr. Barron, "Is that 18 what you're asking?" Mr. DeLacy, "Yes." 19 Your answer, "I think so. I think 20 Christa also knew." 21 Question, "Christa Porter and Amy 22 both knew?" 23 Answer, "I think so, yes." 24 Mr. Weiser interjected, "Just to clarify, they 25 knew about the amounts coming from Graduate or</p>
<p style="text-align: right;">Page 118</p> <p>1 MR. STEINBERG: Just to clarify, I 2 don't think it says Christa Porter. It just 3 said Christa. 4 MR. TORBORG: Christa, thank you. 5 Why can't I read documents? 6 Q. Do you recall giving this testimony 7 after having a chance to read through it with 8 me? 9 A. I guess. 10 Q. Do you believe that testimony was 11 truthful when you gave it in March of 2000? 12 A. Yes. 13 Q. If you would flip with me, please, 14 to page 219 of this transcript. I'm going to 15 do this same drill here, starting with line 16 five of page 219. Are you with me? 17 A. Yes. 18 Q. Question, "Did you ever have any 19 discussion with any members of the audit team 20 that indicated they were aware of the recording 21 of bad debt allowance is of these magnitudes, 22 20 million at Graduate, 9 million at Rancocas, 23 5 million at Mt. Sinai; were they aware of 24 that? Was this news or information to Miss 25 Frazier?"</p>	<p style="text-align: right;">Page 120</p> <p>1 where they went on the DVOG entities, if you 2 remember, or if you don't remember." 3 Your answer, "I know they told me 4 about a transfer from Graduate to DVOG, 50 5 million dollars." 6 Mr. Weiser then asked, "Do you 7 remember whether they told you or not that they 8 went into specific months and the amounts that 9 they went into -- they went in specific 10 months?" 11 The witness, "They told me March 12 and April. I don't know if they told me 13 amounts." 14 Question by Miss Pappas, "In your 15 first conversation with Amy and Christa 16 sometime in August of 1997, why don't you tell 17 us, because we've gone a little bit further 18 here, tell us what they told you. We 19 understand from what you've told us already 20 that during that first conversation -- first of 21 all, both were present at the time?" 22 Answer, "I think so." 23 Question, "Okay, and you recalled 24 them both telling you about this issue, the 50 25 million dollars?"</p>

30 (Pages 117 to 120)

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<p style="text-align: right;">Page 137</p> <p>1 reallocation of these reserves in the Graduate 2 hospitals to the other Delaware Valley 3 Hospitals is not the most technically 4 appropriate resting place, however, since only 5 one audited set of financial statements will be 6 prepared at a consolidated AHERF level, the 7 precise placement of the reserves on the 8 individual hospital's financial statements 9 becomes less critical."</p> <p>10 My question for you, Miss Heinlein, 11 is do you recall any discussion at any time 12 during the 1997 audit about the fact that there 13 would be only one set of consolidated financial 14 statements in context with the reserve 15 transfers?</p> <p>16 A. Not in context with the reserve 17 transfers. I just knew there that there was 18 going to be one set of financials instead of 19 multiple perennity.</p> <p>20 Q. So you don't recall any connection 21 between the two?</p> <p>22 A. No.</p> <p>23 Q. At any time during the 1997 audit, 24 do you recall ever hearing about Coopers 25 requesting AHERF to reverse the transfers?</p>	<p style="text-align: right;">Page 139</p> <p>1 produced earlier today that has a cover page 2 that had the business assurance manual on it. 3 The first page will be a black document. 4 Again, Exhibit 4001 has a cover 5 page, which is the cover page for the business 6 assurance manual, assurance services, 1996 7 edition, as well as a particular section within 8 that manual, Section 620, Consideration of 9 Documentation of Issues.</p> <p>10 Did you review this last time and 11 tell me if you recall whether or not you 12 remember this document?</p> <p>13 A. I remember the manual. I'm not 14 specifically sure of Section 620.</p> <p>15 Q. Do you think you did look at it 16 during the -- at all during the AHERF audit?</p> <p>17 A. I don't know.</p> <p>18 MR. STEINBERG: Section 620?</p> <p>19 MR. TORBORG: Section 620, yes.</p> <p>20 A. I don't know.</p> <p>21 Q. Section 3 on Bates 256 states, "An 22 issue is a matter that we identify that is 23 relevant and requires a response in the audit 24 from either a technical project management or 25 client's service or any other point of view."</p>
<p style="text-align: right;">Page 138</p> <p>1 A. No.</p> <p>2 Q. Now, unlike some of the -- I want 3 to -- sorry, flip back to 4297. That was your 4 issue document.</p> <p>5 A. Okay.</p> <p>6 Q. Now, unlike some of the other 7 documents we've seen today, this one is an 8 issue topic document and not a work paper, is 9 that right?</p> <p>10 A. Yes.</p> <p>11 Q. Is there a distinction between the 12 two types of documents?</p> <p>13 A. Yes.</p> <p>14 Q. To the best of your understanding, 15 what was the difference between an issue 16 document and a regular work paper?</p> <p>17 A. Work paper normally included 18 information that the client had given to the 19 auditors and then, you know, we, as the 20 auditors, put our tick marks on it or our 21 follow-up questions. An issue was to bring 22 attention to something that we had found when 23 we were auditing our audit areas.</p> <p>24 Q. If I could ask you to flip out -- 25 get out Exhibit 4001. It was a document</p>	<p style="text-align: right;">Page 140</p> <p>1 Issue matter -- "Issues may be 2 matters from the previous year that were 3 appropriate to be readdressed in the current 4 audit, risks identified during the client 5 acceptance or continuance review, risks 6 identified at the planning stage, exceptions 7 arising from our work or other matters 8 warranting further attention. 9 "Critical matters are those issues 10 deemed of such importance that they require 11 partner clearance. This section outlines how 12 we should consider documenting issues, 13 including critical matters."</p> <p>14 Does my reading that language in 15 the record refresh your recollection at all 16 about whether you read this language before?</p> <p>17 A. No.</p> <p>18 Q. Does this comport with your 19 recollection about what an issue was?</p> <p>20 A. Yes.</p> <p>21 Q. Under 4(a) under subsection under 22 identification of issues, it states, "Members 23 of the engagement team should identify issues 24 as early as possible." 25 Do you remember that being</p>

35 (Pages 137 to 140)

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<p style="text-align: right;">Page 141</p> <p>1 something that was stressed during the AHERF 2 audit, to identify issues as early as possible? 3 A. Yes. 4 Q. And then (c) stated, "Issues should 5 be analyzed by the member of the engagement 6 team with the appropriate experience, skills, 7 and judgment who should be satisfied that the 8 record of the issue is sufficient to identify 9 the audit engagements." 10 Do you recall that being something 11 that was stressed during the audit of AHERF, 12 1997 audit of AHERF? 13 A. Yes. 14 Q. Now, the issue document that we saw 15 in Exhibit 4297, the 50 million reserve entry, 16 the one created on June 9th -- June 9, 1997, 17 you have typed -- you have typed it issue type, 18 no further action required? 19 A. Yes. 20 Q. Do you recall that within the CLASS 21 system you could identify an issue type? 22 A. Yes, I could. 23 Q. And do you know why you typed this 24 one no further action required? 25 A. Yes, because I only used this issue</p>	<p style="text-align: right;">Page 143</p> <p>1 Q. One of the changes was that the 2 issue type was changed from no further action 3 required to audit implications? 4 A. Yes. 5 Q. Do you know why that was changed? 6 MR. STEINBERG: You're comparing to 7 4297? 8 MR. TORBORG: Yes. 9 A. I don't know, I changed it. I 10 don't know why. 11 Q. What did the term audit 12 implications mean? 13 A. Something that would impact the 14 audit and needed to be looked at by someone 15 higher than myself. 16 Q. In addition, this version of the 17 work paper, the journal entries that are listed 18 on Exhibit 4297, the earlier version of the 19 issue document, the journal entries are not on 20 this version? 21 A. Correct. 22 Q. Do you know why not? 23 A. I'm not sure why I deleted them. 24 Q. And then in this version, the issue 25 description, you have, "Per conversation with</p>
<p style="text-align: right;">Page 142</p> <p>1 as a place where I kept my notes throughout the 2 audit. 3 MR. STEINBERG: Are we done with 4 4001? 5 MR. TORBORG: Yes. 6 - - - - - 7 (Thereupon, Deposition Exhibit 4302 8 was marked for purposes of 9 identification.) 10 - - - - - 11 Q. For the record, what I've marked as 12 Exhibit 4302 is an issue topic titled 50 13 Million Reserve Entry. Again, this one has a 14 created by date of June 9th, 1997; but this one 15 has a last modified by date of August 13, 1997. 16 Right? 17 A. Yes. 18 Q. Have you had a chance to look 19 through this document or do you need a second? 20 A. I'm fine, go ahead. 21 Q. Do you recall this document? 22 A. Yes. 23 Q. Now, this one has some changes from 24 the previous version, correct? 25 A. Yes.</p>	<p style="text-align: right;">Page 144</p> <p>1 Robin Schaffer, C&L notes that a total of 50 2 million was intercompany from the Graduate 3 hospitals to the Delaware Valley Hospitals to 4 help, quote, support, unquote these entities 5 due to bad debt reserve shortfalls " 6 In the earlier version of this work 7 paper, you didn't have the language "to help 8 support," right? 9 A. Yes. 10 Q. Do you know why you added that 11 language? 12 A. No. 13 Q. Do you know what you meant when you 14 said "to support"? 15 A. I don't know what I thought at that 16 time. 17 Q. Do you know why you put it in 18 quotes? 19 A. No. 20 Q. Based on your practices at the 21 time, would that be, putting in quotes, would 22 that be something intended to suggest sarcasm? 23 MR. STEINBERG: Objection. Vague, 24 lack of foundation and calls for speculation. 25 A. I have no idea why I put that in</p>

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<p style="text-align: right;">Page 145</p> <p>1 quotations.</p> <p>2 Q. I'm asking based on your practice</p> <p>3 of when you drafted work papers or issue</p> <p>4 topics, if you put something in quotes, like</p> <p>5 you put in "to help support," would that be</p> <p>6 something that based on your practice would</p> <p>7 indicate hinting at sarcasm?</p> <p>8 A. No.</p> <p>9 MR. STEINBERG: Same objection.</p> <p>10 Q. For the record, I've shown the</p> <p>11 witness or asked the witness to review Exhibit</p> <p>12 4260, which is an April 7th, 1997 interoffice</p> <p>13 correspondence from Christa Porter to the AHERF</p> <p>14 engagement team that is a three-page document.</p> <p>15 Miss Heinlein is shown on the distribution on</p> <p>16 the third page of the document</p> <p>17 Miss Heinlein, if you would take a</p> <p>18 look at that to the extent you think it's</p> <p>19 necessary to tell me whether or not you recall</p> <p>20 it, then I'll ask some specific questions.</p> <p>21 A. Yes, I recall it.</p> <p>22 Q. You do recall the document?</p> <p>23 A. Yes.</p> <p>24 Q. The fourth bullet on the second</p> <p>25 page Bates ending 220 -- let me first read the</p>	<p style="text-align: right;">Page 147</p> <p>1 be developed for both prelim and year-end field</p> <p>2 work. Please stick to the replication</p> <p>3 schedule. This is important due to the size of</p> <p>4 the engagement team."</p> <p>5 Do you have an understanding of</p> <p>6 what that means?</p> <p>7 A. Yes.</p> <p>8 Q. What is your understanding?</p> <p>9 A. There was a main database held on a</p> <p>10 server, so everybody who had done work on this</p> <p>11 database needed to transfer the information</p> <p>12 from that day to the overall database on the</p> <p>13 server, so we would replicate our databases.</p> <p>14 Q. Every member of the audit team</p> <p>15 would replicate the databases?</p> <p>16 A. Yes.</p> <p>17 Q. To the best of your knowledge?</p> <p>18 A. Yes.</p> <p>19 Q. To the best of your knowledge, did</p> <p>20 people stick with the replication schedule?</p> <p>21 A. I don't remember.</p> <p>22 Q. I asked you earlier if you recalled</p> <p>23 whether or not you discussed -- when you first</p> <p>24 created the issue document related to the 50</p> <p>25 million, Exhibit 4297, whether you discussed it</p>
<p style="text-align: right;">Page 146</p> <p>1 first paragraph of that page. It says, "The</p> <p>2 following is a list of CLASS tips for the AHERF</p> <p>3 engagements. This list was generated from</p> <p>4 prior experience in CLASS best practices.</p> <p>5 "If you have any suggestions for</p> <p>6 additional points or criticisms for those made,</p> <p>7 please let me know."</p> <p>8 Then the fourth bullet down reads,</p> <p>9 "Prior to including an issue in the audit file,</p> <p>10 the issue must be discussed with a senior</p> <p>11 assigned to review the audit area for</p> <p>12 concurrence."</p> <p>13 Miss Heinlein, do you recall that</p> <p>14 there was a guideline to discuss the creation</p> <p>15 of an issue with a senior prior to including it</p> <p>16 in the audit file?</p> <p>17 MR. STEINBERG: Objection. Vague.</p> <p>18 Sorry.</p> <p>19 A. I don't remember, no.</p> <p>20 Q. Do you recall whether it was your</p> <p>21 practice to discuss issue documents with a</p> <p>22 senior before putting it in the audit file?</p> <p>23 A. No.</p> <p>24 Q. Five bullets down from that is a</p> <p>25 bullet that says, "A replication schedule will</p>	<p style="text-align: right;">Page 148</p> <p>1 with anyone else. I think you said you don't</p> <p>2 recall today if you did.</p> <p>3 A. Correct.</p> <p>4 Q. Based on your practices at the</p> <p>5 time, would you have created an issue document</p> <p>6 relating to the 50 million dollar transfers</p> <p>7 without discussing it with someone above you?</p> <p>8 MR. STEINBERG: Objection. Vague.</p> <p>9 Lack of foundation. Calls for speculation.</p> <p>10 A. Quite possibly, yes.</p> <p>11 Q. Quite possibly you may have done</p> <p>12 that?</p> <p>13 A. Yes.</p> <p>14 Q. Why do you say that?</p> <p>15 A. If I couldn't find my senior, if</p> <p>16 the person wasn't there for the day, I would</p> <p>17 create an issue and then eventually follow up</p> <p>18 with the person.</p> <p>19 4303 marked.</p> <p>20 Q. For the record, what we've marked</p> <p>21 as Exhibit 4303 is a work paper for the 1996</p> <p>22 audit, working paper name, 50 million dollar</p> <p>23 reserve; 50 million dollar bad debt reserve</p> <p>24 entry. The working paper reference number</p> <p>25 0053-75. Completed by Kristen Heinlein on</p>

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TAB 229

ALLEGHENY HEALTH EDUCATION...

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KRISTEN LEE HEINLEIN

Page 3

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of: }
 ALLEGHENY HEALTH EDUCATION } File No. P-259
 AND RESEARCH FOUNDATION }

WITNESS: Kristen Lee Heinlein

PAGES: 1 through 300

PLACE: U.S. Securities & Exchange Commission
 Philadelphia District Office
 The Curtis Center
 Staff Conference Room
 601 Walnut Street, Suite 1120E
 Philadelphia, Pennsylvania 19106

DATE: Wednesday, March 1, 2000

The above-entitled matter came on for hearing, pursuant
 to notice, at 9:28 a.m.

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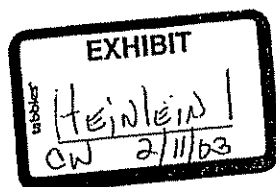
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Page 4

PROCEEDINGS

1
 2 MS. PAPPAS: On the record at 9:28 a.m. on March 1-
 3 2000. Ms. Heinlein, my name is Cathi Pappas. I'm an
 4 attorney with the Securities & Exchange Commission in
 5 Philadelphia.
 6 With me today is Kevin delacy, who is an accountant
 7 with this office. Also joining us at intermittent times
 8 today will be Barry Isenman. He is a branch chief in this
 9 office, and also an attorney, and Paul Boeggeman. He is an
 10 accountant and a branch chief of this office.
 11 When I ask you questions, if you don't understand a
 12 question, say so, and I will repeat or rephrase it
 13 accordingly. If you answer a question, we will presume you
 14 both heard and understood the question. Do you understand
 15 that?
 16 MS. HEINLEIN: Yes.
 17 MS. PAPPAS: Are you on medication today or
 18 anything else that would affect your recollection and/or
 19 prevent you from testifying truthfully today?
 20 THE WITNESS: No.
 21 MS. PAPPAS: Why don't you raise your right hand
 22 whereupon.
 23 KRISTEN LEE HEINLEIN
 24 was called as a witness and, having been first duly sworn,
 25 was examined and testified as follows:

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ALLEGHENY HEALTH EDUCATION...

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KRISTEN LEE HEINLEIN

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<p>1 Q If we were to find an AmiPro documents attached to</p> <p>2 the work papers, would that mean it had, in fact, been</p> <p>3 presented to the client?</p> <p>4 A Not necessarily</p> <p>5 Q How would you tell?</p> <p>6 A It wouldn't be able to tell</p> <p>7 BY MS. PAPPAS:</p> <p>8 Q In terms of this instruction you are not supposed</p> <p>9 to link them if you're not going to show them to the client,</p> <p>10 did you follow this instruction, or am I misinterpreting it?</p> <p>11 Do you interpret it the same way?</p> <p>12 A I'm not quite sure how I should interpret it. My</p> <p>13 understanding -- from reading this, it looks like we should</p> <p>14 not have used AmiPro documents unless they were supposed to</p> <p>15 be formal documents. Do I know if every followed that? I</p> <p>16 don't know.</p> <p>17 Q Did you follow it?</p> <p>18 A I don't know. I don't remember.</p> <p>19 Q So you might have attached an AmiPro document which</p> <p>20 was not to be distributed?</p> <p>21 A Yes.</p> <p>22 Q Going down to the fourth bullet point, "Pop-up</p> <p>23 boxes should be utilized for all flux," f-l-u-x</p> <p>24 "explanations, this can be accomplished by utilizing tables</p> <p>25 and notes for pasting lead schedules into the document and</p>	<p>1 A Yes.</p> <p>2 Q Have you ever seen any printouts for pop-up boxes?</p> <p>3 A No.</p> <p>4 Q Looking at the next one, "Prior to including an</p> <p>5 issue attached to a particular work paper the issue must be</p> <p>6 discussed with the senior assigned to review the audit area</p> <p>7 for concurrence," in your understanding, what does that mean?</p> <p>8 A An associate should have talked with a senior to</p> <p>9 tell them that they were creating an issue.</p> <p>10 Q What is an issue?</p> <p>11 A An issue is something that an associate wants to</p> <p>12 flag to the senior.</p> <p>13 Q Why? Why does an associate want to flag the issue</p> <p>14 to the senior?</p> <p>15 A It could be something that is -- I don't know how</p> <p>16 to say it -- of significance, that it's something that's</p> <p>17 significant during the audit.</p> <p>18 Q How about giving me an example?</p> <p>19 A If I found a -- during 1996 in accounts payable, if</p> <p>20 I would have found an invoice that was not recorded</p> <p>21 correctly, I would propose an issue for it to flag it to my</p> <p>22 senior.</p> <p>23 Q In accounts payable that was not paid correctly?</p> <p>24 I'm sorry.</p> <p>25 A That was not recorded as a payable.</p>
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<p>1 placing the flux tick mark next to the particular account</p> <p>2 being analyzed."</p> <p>3 What does that mean?</p> <p>4 MR. BARRON: Well, just so we're absolutely clear,</p> <p>5 you're asking for her understanding, right?</p> <p>6 MS. PAPPAS: That's what I'm asking for.</p> <p>7 THE WITNESS: My understanding was in a Lotus Notes</p> <p>8 document included in the database, in the Lotus Note work</p> <p>9 paper, we would make a table, put our lead schedule in the</p> <p>10 table and create a pop-up box for us to put in our</p> <p>11 explanations</p> <p>12 BY MS. PAPPAS:</p> <p>13 Q And do those pop-up boxes print out on the hard</p> <p>14 copy, or are they only visible while you're looking at the</p> <p>15 system?</p> <p>16 A I don't know if they can be printed out. They are</p> <p>17 visible in the system.</p> <p>18 Q So it's a possibility that if we have hard copy of</p> <p>19 the Class system it may not show pop-up boxes?</p> <p>20 A It's possible.</p> <p>21 Q And what you put in pop-up boxes were explanations?</p> <p>22 A Yes.</p> <p>23 Q Okay. For the table, for --</p> <p>24 A Yes</p> <p>25 Q -- data and the table?</p>	<p>1 Q Was there a materiality threshold, or any accounts</p> <p>2 payable?</p> <p>3 A There was a materiality threshold.</p> <p>4 Q So if it was within the materiality threshold and</p> <p>5 it wasn't invoiced -- not recorded properly, you would pass</p> <p>6 that on to your senior?</p> <p>7 A Yes.</p> <p>8 Q How would you pass it on to your senior?</p> <p>9 A I could have spoke with the senior directly, or I</p> <p>10 could have created an issue. and he would have seen that when</p> <p>11 he was reviewing my work.</p> <p>12 Q If you speak with the senior directly, is there any</p> <p>13 record of the issue?</p> <p>14 A No.</p> <p>15 Q So you could have found an issue and not recorded</p> <p>16 it, just spoke to the senior about it informally?</p> <p>17 A Yes.</p> <p>18 Q Are there any issues which must be recorded?</p> <p>19 A What we consider critical matters</p> <p>20 Q What are critical matters?</p> <p>21 A Again, something of significance that the manager</p> <p>22 should review.</p> <p>23 Q So if there's an issue that you and your senior do</p> <p>24 not resolve, it is recorded as critical matter?</p> <p>25 A It's documented as a critical matter, yes.</p>

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<p>1 Q Do you ever informally talk with a manager about an 2 issue and not record it?</p> <p>3 A Yes.</p> <p>4 Q When do you do that?</p> <p>5 A During audit procedures.</p> <p>6 Q Why would that not be considered critical matter as 7 you just described it?</p> <p>8 A Manager may not think it's a critical matter.</p> <p>9 Q So a manager tells you whether or not something is 10 a critical matter?</p> <p>11 A Yes. Yes.</p> <p>12 Q Okay. I'm a little bit lost in the procedure, 13 then. I got the understanding that if you and your senior do 14 not -- are not able to resolve an issue and you're taking it 15 to the manager, at that point, it is recorded. And I think 16 what you just told me was different.</p> <p>17 So why don't you tell me what the procedure is if 18 you and your manager cannot or do not resolve an issue.</p> <p>19 A My manager and I or my senior and I?</p> <p>20 Q You and your senior. Did I misspeak? I'm sorry.</p> <p>21 A We could discuss it with the manager first before 22 creating a critical matter, or we could create a critical 23 matter in the system.</p> <p>24 Q Typically, what did you do? Which order did you 25 do?</p>	<p>1 Q What's a search item?</p> <p>2 A Something that I found that was not accrued for, 3 recorded as a payable</p> <p>4 BY MR. deLACY:</p> <p>5 Q That was the example you used before, correct?</p> <p>6 A Yes. Correct.</p> <p>7 BY MS. PAPPAS:</p> <p>8 Q So you take it to your senior. If the senior and 9 you could not resolve it, what would you do? AHERF 1996-1997 10 fiscal.</p> <p>11 Q I don't remember. We could have spoken to the 12 manager informally. We could have put it in an issue. It 13 would not have been a critical matter issue, though.</p> <p>14 Q Not until the manager said it was a critical 15 matter?</p> <p>16 A Correct.</p> <p>17 Q Okay. Let's take 1997. In 1997, did you work on 18 accounts receivable --</p> <p>19 A Yes.</p> <p>20 Q -- for AHERF?</p> <p>21 A Yes.</p> <p>22 Q And that was for all AHERF entities, correct?</p> <p>23 A Yes.</p> <p>24 Q With respect to issues in accounts receivable at 25 AHERF in 1997, who was your senior?</p>
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<p>1 A I don't remember.</p> <p>2 Q With respect to the AHERF engagement 1996 and 1997, 3 and distinguish if your procedures changed, what were your 4 procedures with respect to issues, presenting them to seniors 5 and then presenting them to managers. Take me through the 6 process specific to AHERF, specific to Fiscal '96 and '97.</p> <p>7 MR. BARRON: The problem with that question is it 8 assumes that there was a process.</p> <p>9 BY MS. PAPPAS:</p> <p>10 Q What was your practice?</p> <p>11 MR. BARRON: Well, that assumes that there was a 12 practice, too. I'm not certain that that assumption is 13 warranted by what she has told you already.</p> <p>14 MS. PAPPAS: This witness is articulate. She'll 15 tell me that.</p> <p>16 THE WITNESS: I really don't have a practice. I 17 think it depended upon the situation</p> <p>18 BY MS. PAPPAS:</p> <p>19 Q Okay. Under what circumstances would you do what? 20 Give me your examples?</p> <p>21 A If it was a search item, as I mentioned before, I 22 would pass to the senior, and we would not deem that a 23 critical matter. We probably did not talk to the manager 24 about it first. We may have put it as a critical matter in 25 the database. And all that depended upon the situation.</p>	<p>1 A Christa Porter.</p> <p>2 Q Who was the manager to whom you take this up with?</p> <p>3 A Amy Frazier</p> <p>4 Q In view of your relationship at the time with 5 Christa Porter and with Amy Frazier, if you found what you 6 considered -- what would you consider, first of all, to be an 7 issue in accounts receivable in Fiscal '97 with respect to 8 AHERF?</p> <p>9 A Something that was significant that I found during 10 my auditing procedures or was brought to my attention.</p> <p>11 Q And what would be significant with respect to 12 accounts receivable? And if you have a specific example of 13 what you thought was an issue in 1997, go ahead and tell me?</p> <p>14 A A \$50 million transfer</p> <p>15 Q That you considered to be an issue?</p> <p>16 A Yes</p> <p>17 Q And with respect to that \$50 million transfer, what 18 did you do? We're talking from Graduate to Delaware Valley, 19 correct?</p> <p>20 A Yes</p> <p>21 Q Okay.</p> <p>22 A I received -- I learned about the 50 million from 23 Amy Frazier. I inquired of management for journal entries 24 and the allocation between which hospital entities it was 25 going to, and then I documented my results of my findings.</p>

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1 Q What was the issue?

2 A I put my information in an issue to flag to Christa

3 and to Amy what I had found out. I didn't relate it -- I

4 didn't categorize it as a critical matter. That was my work-

5 in-process issue.

6 Q I'm sorry. I don't understand the last part. I

7 think you said you did not categorize it as a critical issue

8 but rather as a work-in-process issue?

9 MR. McDONOUGH: Critical matter.

10 MS. PAPPAS: I'm sorry.

11 BY MS. PAPPAS:

12 Q Critical matter, but rather as a work-in-process

13 issue?

14 A Yes.

15 Q Explain that, please.

16 A When I was researching the \$50 million, I put

17 everything in an issue so I had it in one place in the

18 database. And we can -- our issues, we can categorize them

19 as critical matters, point forwards. We can give a

20 description of the issue.

21 So there can be different issues for different type

22 of situations, a critical matter, an undetected error, a

23 point forward, for example.

24 Q A point --

25 A Point forward for next year. A point forward,

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1 something that we learned during this audit that's going to

2 relate to next year's audit.

3 Q Okay. So you characterize something as an issue

4 within the Class database?

5 A Yes.

6 Q And it's actually something you click on, or

7 something, saying "issue"?

8 A Yes.

9 Q Okay. And then they ask you what category of

10 issue?

11 A Yes.

12 Q And your categories of issues would include point

13 forward, critical matter -- you said another one. I'm sorry.

14 A Undetected error.

15 Q Undetected error. Did you also say work-in-

16 progress?

17 A I didn't categorize my issue. I left it blank when

18 I created my issue.

19 Q All the time or just this particular time with 50

20 million?

21 A This particular time.

22 Q How come you didn't characterize it?

23 A It was my work-in-process. I was just putting

24 information in that issue.

25 Q Okay. So Amy tells you about \$50 million. You

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1 then put it into an issue?

2 A Yes.

3 Q How soon after you spoke to Amy?

4 A I don't know how soon after. It was during year-

5 end field work.

6 Q Did Amy tell you to put it into an issue?

7 A No.

8 Q Did you talk it over with your senior?

9 A Not that I remember.

10 Q Did you discuss it with Amy?

11 MR. BARRON: What's the "it" --

12 MS. PAPPAS: The \$50 million and the fact that you

13 were putting into issue.

14 THE WITNESS: I don't think so.

15 BY MS. PAPPAS:

16 Q Did Amy or anybody instruct you on how to

17 categorize it as an issue?

18 A No.

19 Q Staying with issues and what is done with issues

20 and staying with the \$50 million, what then happened to it

21 after you put it into an issue? Do you know? Did Amy

22 instruct you to make it a critical matter?

23 A I don't remember.

24 Q You don't recall?

25 A I don't recall.

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1 Q What do you recall about what happened to that

2 issue after you put it into the database?

3 A I put it into the database, included the

4 information that I found, and that's the way I left it.

5 Q Now, you've described a process with respect to

6 issues by which you'd take it and either informally present

7 it to your senior or formally present it to your senior. Was

8 this a formal presentation to your senior by putting it into

9 the database?

10 A No. It was informal.

11 Q Informal. Okay. How was it presented to your

12 senior? You said you didn't talk to Christa about it. What,

13 if anything, was her notification of this issue?

14 A When she reviewed my work papers, she would have

15 seen the issue.

16 Q You didn't bring it up with her?

17 A I don't remember if I specifically told her I

18 created an issue or not.

19 Q Whether or not you told her you created an issue,

20 do you recall discussing the issue? Whether identified as an

21 issue or not, do you recall discussing the issue that you

22 created with respect to \$50 million with Christa?

23 A I discussed \$50 million with Christa. I don't know

24 if I discussed it as an issue.

25 Q Did you and Christa come to any resolution with

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<p>1 respect to the \$50 million?</p> <p>2 A No.</p> <p>3 Q What happened then? Did you and Christa take it to</p> <p>4 Amy? What happened?</p> <p>5 A Amy was involved in the process of me learning</p> <p>6 about the \$50 million. I shared the information with Christa</p> <p>7 and with Amy that was in my issue, but after that I'm not</p> <p>8 sure what transpired with the \$50 million.</p> <p>9 Q Do you know how the issue -- if the issue was</p> <p>10 resolved and how?</p> <p>11 A I don't know.</p> <p>12 Q What was the \$50 million issue?</p> <p>13 MR. BARRON: Are you asking about what the document</p> <p>14 that she put into the system was?</p> <p>15 MS. PAPPAS: No. I'm asking her what was the</p> <p>16 issue.</p> <p>17 MR. McDONOUGH: Yeah.</p> <p>18 MR. BARRON: But that's what's confusing.</p> <p>19 MR. McDONOUGH: We got to use "issue" the right</p> <p>20 way, then, because you're using it generically. I appreciate</p> <p>21 that, but it has also got a definition here. So when you</p> <p>22 say, "What was the \$50 million issue?" we would like you to</p> <p>23 distinguish between "issue" meaning what was the deal, what</p> <p>24 was the subject versus what was the "issue" meaning the</p> <p>25 created document by Christa.</p>	<p>1 Q Correct. The latter.</p> <p>2 A Because Amy brought it to my attention.</p> <p>3 Q Did Amy tell you to make it an issue?</p> <p>4 A She told me to research the \$50 million.</p> <p>5 Q When did Amy first bring this to your attention?</p> <p>6 A During year-end field work, which would have been</p> <p>7 August.</p> <p>8 Q August of '97?</p> <p>9 A Yes.</p> <p>10 Q Now, August of '97 is the first time you ever heard</p> <p>11 of the 50 million or any component of it?</p> <p>12 A Yes.</p> <p>13 Q With respect to issues other than the \$50 million,</p> <p>14 were you typically involved in the resolution?</p> <p>15 A No.</p> <p>16 Q Okay. So you would bring issues -- typically, you</p> <p>17 would bring issues to the attention of your senior, and if</p> <p>18 you and the senior could not resolve it, it would be brought</p> <p>19 to the attention of the manager; is that correct? We're now</p> <p>20 talking about issues typically.</p> <p>21 MR. BARRON: Here's the problem with this word</p> <p>22 "issue" -- and it's coming back again and again in the</p> <p>23 questioning -- is that "issue" has two different meanings.</p> <p>24 There is "issue" meaning something needing to be</p> <p>25 resolved, and there is an "issue" meaning a document as</p>
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<p>1 BY MS. PAPPAS:</p> <p>2 Q What's your definition of "issue"? What</p> <p>3 constitutes an issue that you would either record or discuss</p> <p>4 informally?</p> <p>5 A Something that was significant occurring within the</p> <p>6 entity.</p> <p>7 Q What was significant with respect to the \$50</p> <p>8 million?</p> <p>9 A Fifty million dollars. It was a large, significant</p> <p>10 transaction within AHERF.</p> <p>11 Q Why was it a large significant transaction with</p> <p>12 respect to AHERF?</p> <p>13 A It was brought to my attention by Amy to research</p> <p>14 the transaction.</p> <p>15 Q Okay. And my question was why was it a significant</p> <p>16 transaction? You said, "It was brought to my attention by</p> <p>17 Amy to research the transaction." I'm not sure that's</p> <p>18 responsive. Is it? And if so, how? Does it become</p> <p>19 significant because Amy brought it to your attention to</p> <p>20 research?</p> <p>21 A Yes.</p> <p>22 Q Okay. So Amy bringing it to your attention to</p> <p>23 research was the flag by which you classified it as an issue?</p> <p>24 A As to created a document or whether I thought it</p> <p>25 was a significant transaction?</p>	<p>1 defined in the Class system that is put into the system.</p> <p>2 An "issue" in the second definition; that is, a</p> <p>3 document reflecting her research on the \$50 million matter</p> <p>4 that went into the system does not necessarily present an</p> <p>5 issue as we more generally understand it for resolution. It</p> <p>6 may be just information.</p> <p>7 BY MS. PAPPAS:</p> <p>8 Q "Issues" as used on the fifth bullet point on</p> <p>9 Exhibit 444, I believe, is that being used -- given Frank's</p> <p>10 distinction between "issue," what is the definition as it is</p> <p>11 being used there?</p> <p>12 A Here?</p> <p>13 Q Yes, the fifth bullet point.</p> <p>14 A My understanding of this fifth issue is that it</p> <p>15 would have been something that I would have discussed with</p> <p>16 the senior. We did a formal issue, written document, that we</p> <p>17 would present to the manager.</p> <p>18 BY MR. deLACY:</p> <p>19 Q And it would be included in the Class system?</p> <p>20 A Yes.</p> <p>21 Q As an issue within the Class system meaning of</p> <p>22 "issues," correct?</p> <p>23 A Yes.</p> <p>24 MR. BARRON: A document.</p> <p>25 THE WITNESS: A document.</p>

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:

ALLEGHENY HEALTH EDUCATION
AND RESEARCH FOUNDATION

File No P-259

WITNESS: Kristen Lee Heinlein

PAGES: 1 through 290

PLACE: United States Attorney's Office
United States Post Office and Courthouse
Seventh and Grant Street
Pittsburgh, Pennsylvania

DATE: Friday, September 15, 2000

The above-entitled matter came on for hearing at 9:26
a.m., pursuant to notice

APPEARANCES:

On behalf of the Securities and Exchange Commission:

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C O N T E N T S (Continued)

EXHIBITS:	DESCRIPTION	IDENTIFIED
615	Multi-page document, Bates DWP 112 to 116	252
616	Multi-page document, Bates PWC 11837 to PWC 11855	266

C O N T E N T S

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WITNESS:

Kristen Lee Heinlein

EXAMINATION

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EXHIBITS:

DESCRIPTION

IDENTIFIED

601	Business card	5
602	Multi-page document	34
603	Multi-page document, Bates PWC 33000 through PWC 3300	67
604	Multi-page document, Bates DWP 1 through DWP 7	36
605	Multi-page document, Bates PWC 33010 to PWC 33013	73
606	Review comment, Bates DWP 28	99
607	Multi-page document, Bates DWP 66 through DWP 72	131
608	Multi-page document, Bates DWP 73 to DWP 77	142
609	Multi-page document, Bates DWP 92 to DWP 96	151
610	Multi-page document, Bates DWP 78 through DWP 81	157
611	Single-page document, Bates TEN 544	198
612	Two-page document, Bates DBRRS 61 and 62	202
613	Multi-page document, Bates PWC 12235 to 12237	205
614	Single-page document, Bates PWC 12234	212

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P R O C E E D I N G S

1
2 MS. PAPPAS: Ms Heinlein, my name is Cathi Pappas
3 I'm an attorney with the Securities and Exchange Commission
4 With me today is Kevin deLacy. He is an accountant with the
5 Securities and Exchange Commission
6 Are you on any medications or anything else that
7 would affect your truthful testimony today?

8 THE WITNESS: No.

9 Whereupon,

KRISTEN LEE HEINLEIN

10 was called as a witness and, having been first duly sworn,
11 was examined and testified as follows:
12 MS. PAPPAS: All your answers must be verbal, as
13 you know. To the extent if you don't understand a question,
14 say so, and we will repeat it or rephrase it accordingly.
15 If you answer a question, we will both presume
16 you've heard it and understood it. Do you understand that?

17 THE WITNESS: Yes.

EXAMINATION

18 BY MS. PAPPAS:

19 Q Your name, for the record?
20 A Kristen Lee Heinlein.
21 Q Is your present address still 108 Williams Street?
22 A Yes.
23 Q You've given me -- when we marked this as Exhibit

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1 601 -- your new business card with Himark Life and Casualty
 2 Group. That is your new place of employment?
 3 A Yes.
 4 (SEC Exhibit No. 601 was marked for
 5 identification.)
 6 BY MS. PAPPAS:
 7 Q Why did you leave Coopers?
 8 A I wanted a change.
 9 Q Was there any disciplinary reason for you leaving?
 10 A No.
 11 Q And were you asked to leave?
 12 A No.
 13 Q What do you do at Himark?
 14 A Manager in the Finance Department. I'm the manager
 15 of cash management.
 16 Q You said manager?
 17 A Yes.
 18 Q Okay. And what did you do in that position?
 19 A I manage seven people. I manage the cash in-flows
 20 and out-flows as well as the investment activity.
 21 Q Investment in what?
 22 A Stocks, bonds, equities.
 23 Q Are you doing the accounting for the cash flow?
 24 A Yes.
 25 Q Okay. Are you doing the accounting for the

Page 6

1 investments?
 2 A Yes.
 3 Q Do you do any other accounting activities?
 4 A We are a third-party processor, so I bill our
 5 customers.
 6 Q You also doing the billing, then -- the accounting
 7 in accounts receivables?
 8 A Yes.
 9 Q Okay. And are you doing the accounting for the
 10 accounts receivables?
 11 A Yes.
 12 Q And you're the head of the group that is doing
 13 these things?
 14 A I'm the manager. I have a director above me.
 15 Q Okay. And the director is responsible for several
 16 different groups, not just yours, correct?
 17 A Correct.
 18 Q Okay. Any other areas that you are in charge of
 19 other than third-party -- below your director, obviously,
 20 other than the third-party billing, cash and the investment
 21 areas?
 22 A No.
 23 Q And how long have you been there? When did you
 24 start there?
 25 A I started May 22nd.

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1 Q Of 2000, correct?
 2 A Yes.
 3 Q Are you still in contact with anybody from Coopers?
 4 A Yes.
 5 Q With whom? Is it a short list?
 6 A Pretty short.
 7 Q Okay. Who are you in contact with?
 8 A Dione Graswick, Debby Wisniewski, Jim McIntire,
 9 Barb Toy, Pam Bowser.
 10 Q Okay. The first name you gave --
 11 MR HOWARD: Wait a second. Is that it?
 12 MS. PAPPAS: I'm sorry.
 13 THE WITNESS: Yes.
 14 MS. PAPPAS: I assumed when you paused --
 15 MR HOWARD: Okay. She was still looking.
 16 MS. PAPPAS: My fault.
 17 BY MS. PAPPAS:
 18 Q Wisniewski. Can you spell the last name?
 19 A W-i-s-
 20 Q n-e-w?
 21 A n-i-e-w-k-s-i.
 22 Q Okay. And the first name you gave us?
 23 A Debby?
 24 Q No. I'm sorry. The first -- before Debby you gave
 25 us a name.

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1 A Dione.
 2 Q What was the last name?
 3 A Graswick.
 4 Q That's it.
 5 A G-r-a-s-w-i-c-k.
 6 Q Okay. Jim McIntire, M-c-I-n-t-i-r-e?
 7 A t-i-r-e.
 8 Q Toy was the next one, someone Toy?
 9 A Barbara.
 10 Q T-o-y?
 11 A Mm-hum.
 12 Q Okay. Is that a "Yes"?
 13 A Yes.
 14 Q And the last one was Bowser?
 15 A Pamela Bowser.
 16 Q B-a-u-s-e-r?
 17 A B-o-u.
 18 Q Okay. B-o-w. I'm sorry. B-o-w-s-e-r.
 19 Q My fault. Of all those, was Jim McIntire the only
 20 one with a connection to AHERF?
 21 A Yes.
 22 Q Have you spoken with Jim McIntire about the --
 23 aside from what you told us in previous testimony have you
 24 spoken with Jim McIntire with respect to AHERF and/or the
 25 1997 audit?

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1 A He was asking me if I was going to testify again.
 2 Q Okay. And what did you tell him?
 3 A Eventually.
 4 Q Okay. Did you talk about the substance of your
 5 testimony?
 6 A No.
 7 Q Okay. Anything else about AHERF with him?
 8 A No.
 9 Q Since your last testimony have you spoken with,
 10 aside from counsel, anybody concerning the AHERF matter?
 11 A No.
 12 Q Okay. Any conversations with Amy Frazier or Bill
 13 Buctner?
 14 A I saw Bill before I left PWC and told him that I
 15 was leaving to pursue a different career path.
 16 Q Did you speak with AHERF at all?
 17 A No.
 18 Q Did you speak about your testimony before the staff
 19 at all?
 20 A No.
 21 Q Did you speak about your -- I'm sorry. Have you
 22 seen Amy Frazier since your last testimony?
 23 A No.
 24 Q How about Christa Porter?
 25 A No.

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1 Q And have you spoken with Christa Porter about AHERF
 2 since your last testimony?
 3 A No.
 4 Q Mark Kirstein. Same question. Have you seen or
 5 spoken -- seen Mark Kirstein or spoken with Mark Kirstein
 6 since your last testimony?
 7 A No.
 8 Q Is there anything from your last testimony, given
 9 the intervening time, your new counsel and/or anything that
 10 you've remembered that you'd like to restate or change since
 11 your last testimony?
 12 A I've reviewed new documents, and I've realized that
 13 I knew about the \$50 million before August. So my chronology
 14 was incorrect. And by reviewing this document, I now realize
 15 that I deleted the issue.
 16 Q Meaning hard delete, as we used before, or soft
 17 delete, meaning marked for deletion?
 18 A Both. You have to mark a deletion before you can
 19 hard delete.
 20 Q Okay. And you actually did the hard delete, is
 21 your recollection?
 22 A Yes.
 23 Q And we are talking about the \$50 million issue?
 24 A Yes.
 25 Q Okay. Is there any other documents that you

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1 reviewed that helped you refresh your recollection?
 2 A No.
 3 Q What is it that makes you --
 4 MR. HOWARD: Wait a second. That assumes that her
 5 recollection has been refreshed, and I don't think she said
 6 that her recollection has been refreshed on both of those
 7 issues -- on both of those matters, I should say.
 8 MS. PAPPAS: Okay.
 9 BY MS. PAPPAS:
 10 Q What has been changed since your last testimony?
 11 A I've seen the issue document.
 12 Q And that issue document caused what? Seeing the
 13 issue document caused what?
 14 A Me to know that I knew about the 50 million before
 15 August and that I had deleted the document.
 16 Q Okay. So on both those matters, the hard delete
 17 and knowing about it in June of 1997 you have -- it has
 18 refreshed your recollection, correct?
 19 A On those two points.
 20 Q Okay. I'm not sure where I went wrong on that, but
 21 on those -- what was it with respect to the issue document
 22 that refreshed your recollection with respect to the hard
 23 delete?
 24 A I remember Christa Porter talking to me about my
 25 issue document, saying that I should put the information into.

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1 a work paper and that I no longer needed the issue document,
 2 that Amy Frazier would deal with the rest of the information.
 3 Q Okay. Why don't you take me through the steps that
 4 you took to change -- well, and you're saying "hard delete,"
 5 but I'm thinking maybe what you're -- how are you making an
 6 issue a work paper? Is that, essentially, what you did?
 7 A Yes. I copied and paste my information on the
 8 issue --
 9 Q Into a new work paper?
 10 A Into a work paper.
 11 Q Okay. So you've created a work paper at this
 12 point?
 13 A Yes.
 14 Q And then what did you do with the -- you cut/paste,
 15 as you would in WordPerfect or Word, correct?
 16 A Yes.
 17 Q Okay. And what, then, happened to the issue?
 18 A I deleted it.
 19 Q Were you an owner of the database?
 20 A No.
 21 Q How did you delete it?
 22 A I marked it for deletion -- I now remember
 23 that -- in CLASS, you can hard delete your own documents.
 24 Q Okay. So whether you're an owner or not, you
 25 can -- owner of the database, as we discussed before, you can

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1 hard delete from the database documents that you created?

2 A That I created only

3 Q And what is it between then or your earlier

4 testimony and now that refreshed your recollection that you

5 deleted it?

6 A Just by seeing the document and going through in my

7 mind what happened.

8 Q Have you spoken to anybody from Coopers or

9 PriceWaterhouse on this point?

10 A No.

11 Q What was the key function, if you recall, to delete

12 your own document when you're not an owner? Do you remember?

13 A I know that there's a mark for deletion.

14 Q Right. Box?

15 A Box. And then I -- again, I would be speculating.

16 I don't remember what my keystrokes were to delete it.

17 Q But you could actually type something in, and it's

18 gone from the database is your recollection?

19 A If I type it into a document, I could back space

20 and delete something. Is that what you mean?

21 Q I'm sorry. Bad question. I meant the document

22 itself, the issue itself. It is your recollection that you

23 could actually do something on your keyboard, and as long as

24 you created the document it would be gone from the database?

25 A Yes.

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1 Q Okay. And if you did not create it, you would not

2 be able to do that?

3 A Not that I remember, no.

4 Q Do you know whether you did that to any other

5 documents, other than review comments, perhaps, that you

6 created during the -- that you created during the 1997 audit?

7 A I don't remember.

8 Q Okay. You don't remember doing it, or you don't

9 remember either way?

10 A I don't remember either way.

11 Q Do you recall whether -- now, I did limit it from

12 review comments. Do you know whether you ever deleted, hard

13 deleted, review comments?

14 A Not that I remember, no.

15 Q Now, I asked you did you speak to anybody from

16 PriceWaterhouse or Coopers, and your response was no on this

17 point. Let me ask that a little bit broader. Other than

18 your counsel, aside from your counsel, have you spoken to

19 anybody that helped refresh your recollection on that hard

20 delete point?

21 A No.

22 MS. PAPPAS: Okay. Why don't we proceed. Kevin is

23 going to be asking most of these questions, and I'll fill in

24 as needed.

25 BY MS. PAPPAS:

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1 Q Last testimony you identified or you stated that

2 you gave a group of documents to your recollection I believe

3 was Christa and/or Amy, and it was for a meeting that you

4 thought was to be with Hoover, Kirstein, Buetner -- Hoover,

5 Buetner, Kirstein and Frazier. Is that in accordance with

6 your recollection?

7 A Yes.

8 MS. PAPPAS: Let me show what you has been marked

9 as Exhibit 519. Look at this packet of documents. To the

10 extent it matters, we found this group of documents in what

11 was identified as Hoover's personal files. I believe they

12 were consecutive in numbering. I believe there may have been

13 a rubber band around them, though I'm not absolutely certain

14 on that point.

15 BY MS. PAPPAS:

16 Q Is this the packet of documents that you provided

17 for the meeting?

18 MR. HOWARD: Are these Bates-numbered

19 consecutively?

20 MS. PAPPAS: I think they are. I didn't re-check

21 them this morning, but my recollection is they are.

22 MR. HOWARD: So it's PWC 0153209 --

23 MS. PAPPAS: Correct.

24 MR. HOWARD: -- through 153265?

25 MS. PAPPAS: Yeah. Kevin, would you just double

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1 check that as she's looking in terms of consecutive? It

2 looks like they are. and that's my recollection.

3 (The witness examined the document.)

4 THE WITNESS: I think I did -- I think this was my

5 packet, yeah. I don't remember the fund report.

6 MS. PAPPAS: Okay. Use Bates numbers, if you will,

7 when you don't remember something, meaning the bottom right.

8 THE WITNESS: PWC?

9 MS. PAPPAS: Yeah.

10 THE WITNESS: 0153252.

11 BY MS. PAPPAS:

12 Q You don't remember including that in a packet, or

13 you don't remember --

14 A I don't remember if I did this.

15 Q Okay. And the items you provided were things you

16 did?

17 A That I gathered the information for.

18 Q What I'm trying to understand is are you saying

19 you're not sure whether the packet included in 153252 to

20 153258 you're not sure of?

21 MR. HOWARD: Can I just suggest that it might be a

22 good idea, just because I think the record is already

23 confused, to break it down per page?

24 MS. PAPPAS: Well, okay. I think this is a group

25 of documents that you provided. But if you want to go by